

**BALLARD
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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BALLARD COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Gene Rouse	President	2005
Jean Saveraid	Vice President	2006
Andrew Thom		2004
Becky Long		2005
Steven Gluck		2004

(After September, 2004 Election)

Gene Rouse	President	2005
Steven Gluck	Vice President	2007
Andrew Thom	(Resigned March, 2005)	
Becky Long		2005
Jean Saveraid		2006
Howard Hammond	(Appointed March, 2005)	2005

SCHOOL OFFICIALS

Michael Krumm	Superintendent
Janice Halverson	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Ballard Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Ballard Community School District, Huxley, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Ballard Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated October 11, 2005 on our consideration of Ballard Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ballard Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

October 11, 2005

BALLARD COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ballard Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,739,317 in fiscal 2004 to \$9,137,088 in fiscal 2005, while General Fund expenditures increased from \$8,958,186 in fiscal year 2004 to \$9,384,833 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in state foundation aid. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and increased Special Education program costs. The General Fund balance decreased as the funding for District costs due to increased enrollment and special education services trails the actual expenses by a full year.
- The School Infrastructure Local Option Sales Tax passed in Story County in 2003. The District began receiving these funds in September 2003. These monies are being used for improvements to district facilities. This tax will allow the District to update its facilities for an expanding enrollment without raising property taxes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Ballard Community School District

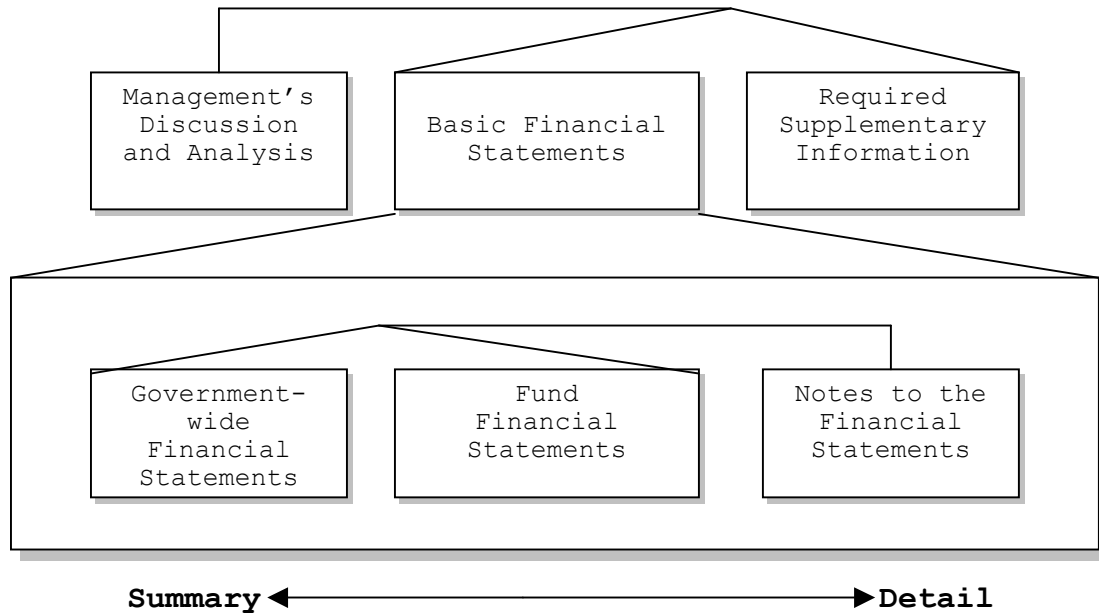


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- *Agency Funds* - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf other Districts and certain revenues collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	%
Current assets	8,991	7,305	51	71	9,042	7,376	18.43%
Capital assets	9,745	8,280	34	35	9,779	8,315	14.97%
Total assets	<u>18,736</u>	<u>15,585</u>	<u>85</u>	<u>106</u>	<u>18,821</u>	<u>15,691</u>	<u>16.63%</u>
Current liabilities	5,478	5,697	1	11	5,479	5,708	-4.18%
Non-current liabilities	8,796	6,467	-	-	8,796	6,467	26.48%
Total liabilities	<u>14,274</u>	<u>12,164</u>	<u>1</u>	<u>11</u>	<u>14,275</u>	<u>12,175</u>	<u>14.71%</u>
Net Assets							
Invested in capital assets, net of related debt	1,625	2,358	34	35	1,659	2,393	-44.24%
Restricted	3,618	1,335	-	-	3,618	1,335	63.10%
Unrestricted	(781)	(272)	50	60	(731)	(212)	-273.77%
Total net assets	<u>4,462</u>	<u>3,421</u>	<u>84</u>	<u>95</u>	<u>4,546</u>	<u>3,516</u>	<u>22.66%</u>

The District's combined net assets were greater at June 30, 2005 than June 30, 2004. The increase occurred primarily as a result of increased revenue in the Capital Projects Funds.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4			
Change in Net Assets			
(expressed in thousands)			
	Governmental	Business-type	Total
	Activities	Activities	School
	\$	\$	District
			\$
Revenues:			
Program revenues:			
Charges for service and sales	651	419	1,070
Operating grants, contributions			
and restricted interest	1,312	133	1,445
General revenues:			
Property tax	3,361	-	3,361
Local option sales tax	1,237	-	1,237
Unrestricted state grants	4,979	-	4,979
Unrestricted investment earnings	11	-	11
Other	12	-	12
Total revenues	<u>11,563</u>	<u>552</u>	<u>12,115</u>
Program expenses:			
Governmental activities:			
Instruction	6,628	-	6,628
Support Services	3,026	-	3,026
Non-instructional programs	4	562	566
Other expenses	864	-	864
Total expenses	<u>10,522</u>	<u>562</u>	<u>11,084</u>
Change in net assets	<u>1,041</u>	<u>(10)</u>	<u>1,031</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$11,563,418 and expenses were \$10,522,142.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	6,628	5,089
Support Services	3,026	3,010
Non-instructional programs	4	4
Other expenses	<u>864</u>	<u>456</u>
Totals	<u>10,522</u>	<u>8,559</u>

- The cost financed by users of the District's programs was \$651,309.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$898,117.
- The net cost of governmental activities was financed with \$3,360,837 in property tax, and \$4,979,185 in state foundation aid.

Business-Type Activities

Revenues of the District's business-type activities were \$552,531 and expenses were \$562,343. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, the District spent over \$6,000 on equipment.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Ballard Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 4,462,291, a thirty percent increase over last year's ending fund balances of \$3,421,015. The primary reason was the use of current revenues to acquire capital assets that will continue to serve the District over an extended period of time.

Governmental Fund Highlights

- The District's General Fund balance decreased as a result of differences in the timing of expenditures and when funding is made available. Allowable growth of 4% is inadequate to keep up with increasing enrollment requirements.
- The District continues to expand its facilities to meet the expanding enrollment primarily through the use of local option sales tax revenues.
- The District's resident enrollment and open enrollment has continued to increase. This will allow the District to continue to grow, however, funding follows expenditures by a full year in many cases.

Proprietary Fund Highlights

The School Nutrition fund decreased 10% during the year. The District was able to purchase over \$6,000 in equipment during the year. The District has continued its agreement with Taher Inc. to manage the nutrition program.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36. The District did not exceed amended budgeted amounts nor did it exceed its statutory spending authority.

Legal Budgetary Highlights

The District's receipts were over \$240,000 greater than budgeted receipts, a variance of less than 2%. The most significant variance resulted from the District receiving more miscellaneous revenue than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The District amended its budget during the year due to additional building costs and increased enrollment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$9.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 18% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$389,344.

The original cost of the District's capital assets was \$15,563,297. Governmental funds account for \$15,480,035, with the remainder of \$83,262 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	613	603	-	-	613	603	1.66%
Site improvements	1,125	332	-	-	1,125	332	238.86%
Buildings	7,483	6,477	-	-	7,483	6,477	15.53%
Furniture and equipment	360	263	34	32	394	295	33.56%
Construction in progress	164	605	-	-	164	605	-72.89%
Totals	<u>9,745</u>	<u>8,280</u>	<u>34</u>	<u>32</u>	<u>9,779</u>	<u>8,312</u>	<u>17.65%</u>

Long-Term Debt

At June 30, 2005, the District had almost \$8,800,000 in general obligation bonds, revenue bonds and other long-term debt outstanding. This represents an increase of approximately 36% from last year (See Figure A-7). The increase was due to the issuance of over \$3.1 million in revenue bonds. Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

	Total		Total
	District		Change
	June 30,		June 30,
	2005	2004	2004-2005
	\$	\$	
General obligation bonds	2,430	2,770	-12.27%
Early retirement	676	545	24.04%
Capital loan notes	-	107	-100.00%
Revenue bonds	5,690	3,045	86.86%
Total	<u>8,796</u>	<u>6,467</u>	<u>36.01%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed in Story County and money began to be received by the District in July of 2003. This money is being used for various building/remodeling projects throughout the District.
- The District has experienced increasing enrollment the past several years. This has caused short-term cash flow problems, as funding follows enrollment, not precedes it.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).

- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael Krumm, Superintendent, Ballard Community School District, 509 N Main, PO Box 307, Huxley, IA 50124.

Basic Financial Statements

BALLARD COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	4,183,649	46,761	4,230,410
ISCAP investments	1,114,917	-	1,114,917
Receivables:			
Property tax			
Current year	52,505	-	52,505
Succeeding year	3,419,046	-	3,419,046
Due from other governments	118,511	-	118,511
Other receivables	28,636	596	29,232
ISCAP accrued interest receivable	238	-	238
Inventories	-	4,046	4,046
Prepaid expenses	73,551	-	73,551
Capital assets, net of accumulated depreciation (note 3)	9,744,767	34,379	9,779,146
Total assets	18,735,820	85,782	18,821,602
Liabilities			
Accounts payable	260,232	971	261,203
Accrued payroll and benefits	625,163	-	625,163
Accrued interest payable	52,747	-	52,747
Retainage payable	10,497	-	10,497
ISCAP warrants payable	1,110,000	-	1,110,000
ISCAP accrued interest payable	213	-	213
Deferred revenue:			
Succeeding year property tax	3,419,046	-	3,419,046
Long term liabilities:			
Portion due within one year:			
Early retirement	190,589	-	190,589
General obligation bonds	345,000	-	345,000
Revenue bonds	315,000	-	315,000
Portion due after one year:			
Early retirement	485,042	-	485,042
General obligation bonds	2,085,000	-	2,085,000
Revenue bonds	5,375,000	-	5,375,000
Total liabilities	14,273,529	971	14,274,500
Net Assets			
Invested in capital assets, net of related debt	1,624,767	34,379	1,659,146
Restricted for:			
Management fund	76,095	-	76,095
Debt service	60,455	-	60,455
Capital projects	3,482,308	-	3,482,308
Unrestricted	(781,334)	50,432	(730,902)
Total net assets	4,462,291	84,811	4,547,102

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					
			Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service					
\$	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	4,387,712	611,252	407,330	(3,369,130)	-	(3,369,130)
Special instruction	1,672,801	38,435	167,806	(1,466,560)	-	(1,466,560)
Other instruction	567,456	-	313,698	(253,758)	-	(253,758)
	6,627,969	649,687	888,834	(5,089,448)	-	(5,089,448)
Support services:						
Student services	341,615	-	2,040	(339,575)	-	(339,575)
Instructional staff services	384,574	-	-	(384,574)	-	(384,574)
Administration services	885,101	-	-	(885,101)	-	(885,101)
Operation and maintenance of plant services	884,385	-	11,828	(872,557)	-	(872,557)
Transportation services	530,100	1,622	680	(527,798)	-	(527,798)
	3,025,775	1,622	14,548	(3,009,605)	-	(3,009,605)
Non-instructional programs	4,199	-	-	(4,199)	-	(4,199)
Other expenditures:						
Facilities acquisition	-	-	59,876	59,876	-	59,876
Interest on long-term debt	287,677	-	4,211	(283,466)	-	(283,466)
Long-term debt services	150	-	-	(150)	-	(150)
AEA flowthrough	344,575	-	344,575	-	-	-
Depreciation (unallocated) *	231,797	-	-	(231,797)	-	(231,797)
	864,199	-	408,662	(455,537)	-	(455,537)
Total governmental activities	10,522,142	651,309	1,312,044	(8,558,789)	-	(8,558,789)

BALLARD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs:					
Nutrition services	562,343	419,219	-	(9,812)	(9,812)
Total	<u>11,084,485</u>	<u>1,070,528</u>	<u>(8,558,789)</u>	<u>(9,812)</u>	<u>(8,568,601)</u>
General revenues:					
Property tax levied for:					
General purposes			2,546,301	-	2,546,301
Management Fund			181,281	-	181,281
Capital outlay			160,193	-	160,193
Debt service			473,062	-	473,062
School Infrastructure Local Option Sales Tax			1,237,213	-	1,237,213
Unrestricted state grants			4,979,185	-	4,979,185
Unrestricted investment earnings			11,246	-	11,246
Other			<u>11,584</u>	<u>-</u>	<u>11,584</u>
Total general revenue			<u>9,600,065</u>	<u>-</u>	<u>9,600,065</u>
Change in net assets			1,041,276	(9,812)	1,031,464
Net assets beginning of year			<u>3,421,015</u>	<u>94,623</u>	<u>3,515,638</u>
Net assets end of year			<u>4,462,291</u>	<u>84,811</u>	<u>4,547,102</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	366,115	53,805	3,593,011	170,718	4,183,649
ISCAP investments	1,114,917	-	-	-	1,114,917
Receivables:					
Property tax:					
Current year	40,347	6,650	-	5,508	52,505
Succeeding year	2,541,593	462,823	-	414,630	3,419,046
Due from other governments	21,643	-	96,868	-	118,511
Other receivables	8,015	-	20,467	154	28,636
ISCAP accrued interest	238	-	-	-	238
Interfund receivable	34,793	-	-	-	34,793
Prepaid expenses	73,551	-	-	-	73,551
Total assets	<u>4,201,212</u>	<u>523,278</u>	<u>3,710,346</u>	<u>591,010</u>	<u>9,025,846</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	39,326	-	217,541	3,365	260,232
Accrued payroll and benefits	625,163	-	-	-	625,163
Retainage payable	-	-	10,497	-	10,497
Interfund payable	-	-	-	34,793	34,793
ISCAP warrants payable	1,110,000	-	-	-	1,110,000
ISCAP accrued interest payable	213	-	-	-	213
Deferred revenue:					
Succeeding year property tax	2,541,593	462,823	-	414,630	3,419,046
Total liabilities	<u>4,316,295</u>	<u>462,823</u>	<u>228,038</u>	<u>452,788</u>	<u>5,459,944</u>
Fund balances:					
Reserved for:					
Debt service	-	60,455	-	-	60,455
Capital projects	-	-	3,482,308	-	3,482,308
Prepaid expenses	73,551	-	-	-	73,551
Unreserved	(188,634)	-	-	138,222	(50,412)
Total fund balances	<u>(115,083)</u>	<u>60,455</u>	<u>3,482,308</u>	<u>138,222</u>	<u>3,565,902</u>
Total liabilities and fund balances	<u>4,201,212</u>	<u>523,278</u>	<u>3,710,346</u>	<u>591,010</u>	<u>9,025,846</u>

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)		\$ 3,565,902
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		9,744,767
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(52,747)
Long-term liabilities, including compensated absences and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Early retirement	\$ (675,631)	
General obligation bonds	(2,430,000)	
Revenue bonds	(5,690,000)	<u>(8,795,631)</u>
Net assets of governmental activities (Exhibit A)		<u><u>\$ 4,462,291</u></u>

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,546,300	473,062	1,237,213	341,474	4,598,049
Tuition	649,687	-	-	-	649,687
Other	64,295	3,932	59,877	310,082	438,186
State sources	5,692,604	279	-	217	5,693,100
Federal sources	184,202	-	-	-	184,202
Total revenues	<u>9,137,088</u>	<u>477,273</u>	<u>1,297,090</u>	<u>651,773</u>	<u>11,563,224</u>
Expenditures:					
Instruction:					
Regular instruction	4,277,324	-	-	64,449	4,341,773
Special instruction	1,687,025	-	-	-	1,687,025
Other instruction	290,983	-	-	290,588	581,571
	<u>6,255,332</u>	<u>-</u>	<u>-</u>	<u>355,037</u>	<u>6,610,369</u>
Support services:					
Student services	340,620	-	-	1,183	341,803
Instructional staff services	385,732	-	-	66,160	451,892
Administration services	759,672	-	-	74,765	834,437
Operation and maintenance of plant services	941,388	-	-	64,961	1,006,349
Transportation services	353,315	-	-	66,245	419,560
	<u>2,780,727</u>	<u>-</u>	<u>-</u>	<u>273,314</u>	<u>3,054,041</u>
Non-instructional programs:					
Community service and education	4,199	-	-	-	4,199
Other expenditures:					
Facilities acquisition and construction services	-	-	1,555,035	-	1,555,035
Principal on long-term debt	-	947,296	-	-	947,296
Interest on long-term debt	-	228,469	-	-	228,469
Long-term debt services	-	150	-	-	150
AEA flowthrough	344,575	-	-	-	344,575
	<u>344,575</u>	<u>1,175,915</u>	<u>1,555,035</u>	<u>-</u>	<u>3,075,525</u>
Total expenditures	<u>9,384,833</u>	<u>1,175,915</u>	<u>1,555,035</u>	<u>628,351</u>	<u>12,744,134</u>

BALLARD COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (Deficiency) of revenues over (under) expenditures	(247,745)	(698,642)	(257,945)	23,422	(1,180,910)
Other financing sources:					
Sale of equipment and materials	194	-	-	-	194
Revenue bonds issued	-	-	3,145,000	-	3,145,000
Bond issuance costs	-	-	(37,741)	-	(37,741)
Operating transfers in	-	703,497	-	-	703,497
Operating transfers out	-	-	(593,188)	(110,309)	(703,497)
Total other financing sources	194	703,497	2,514,071	(110,309)	3,107,453
Net change in fund balances	(247,551)	4,855	2,256,126	(86,887)	1,926,543
Fund balances beginning of year	132,468	55,600	1,226,182	225,109	1,639,359
Fund balances end of year	(115,083)	60,455	3,482,308	138,222	3,565,902

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ 1,926,543

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 1,846,738	
Depreciation expense	<u>(382,105)</u>	1,464,633

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(3,145,000)	
Repaid	<u>947,296</u>	(2,197,704)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is reported as an expenditure in the funds when due. In the Statement of Activities, interest expense is recorded as the interest accrues, regardless of when it is due.

(21,467)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		<u>(130,729)</u>
------------------	--	------------------

Change in net assets of governmental activities (Exhibit B) \$ 1,041,276

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>419,219</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	184,657
Benefits	36,685
Services	53,488
Supplies	280,274
Depreciation	<u>7,239</u>
Total operating expenses	<u>562,343</u>
Operating (loss)	<u>(143,124)</u>
Non-operating revenues:	
Interest on investments	248
State sources	6,694
Federal sources	<u>126,370</u>
	<u>133,312</u>
Change in net assets	(9,812)
Net assets beginning of year	<u>94,623</u>
Net assets end of year	<u><u>84,811</u></u>

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of services	419,336
Cash payments to employees for services	(224,839)
Cash payments to suppliers for goods or services	(311,561)
Net cash provided by (used in) operating activities	(117,064)
Cash flows from non-capital financing activities:	
State grants received	6,694
Federal grants received	115,351
Net cash provided by non-capital financing activities	122,045
Cash flows from capital financing activities:	
Acquisition of capital assets	(6,976)
Cash flows from investing activities:	
Interest on investments	248
Net increase (decrease) in cash and cash equivalents	(1,747)
Cash and cash equivalents beginning of year	48,508
Cash and cash equivalents end of year	46,761
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(143,124)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	7,239
Commodities used	20,699
Decrease in other receivables	117
Decrease in inventory	8,418
(Decrease) in accounts payable	(10,413)
	(117,064)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	46,761

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$20,699.

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	<u>Agency</u>
	\$
Assets	
Cash	<u>3,711</u>
Total assets	<u>3,711</u>
Liabilities	
Other payables	<u>3,711</u>
Total liabilities	<u>3,711</u>
Net assets	<u><u>-</u></u>

See notes to financial statements.

BALLARD COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Ballard Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Huxley, Slater, Cambridge and Kelley, Iowa, and agricultural area in Story, Polk and Boone Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Ballard Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Ballard Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Story County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary fund. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>603,349</u>	<u>9,898</u>	<u>-</u>	<u>613,247</u>
Capital assets being depreciated:				
Buildings	10,001,468	1,302,061	-	11,303,529
Improvements other than buildings	538,734	825,170	9,575	1,354,329
Furniture and Equipment	1,911,159	167,716	34,180	2,044,695
Construction in progress	<u>605,000</u>	<u>164,235</u>	<u>605,000</u>	<u>164,235</u>
Total capital assets being depreciated	<u>13,056,361</u>	<u>2,459,182</u>	<u>648,755</u>	<u>14,866,788</u>
Less accumulated depreciation for:				
Buildings	3,523,665	296,625	-	3,820,290
Improvements other than buildings	207,318	30,838	9,575	228,581
Furniture and Equipment	<u>1,648,593</u>	<u>54,642</u>	<u>16,838</u>	<u>1,686,397</u>
Total accumulated depreciation	<u>5,379,576</u>	<u>382,105</u>	<u>26,413</u>	<u>5,735,268</u>
Total capital assets being depreciated, net	<u>7,676,785</u>	<u>2,077,077</u>	<u>622,342</u>	<u>9,131,520</u>
Governmental activities, capital assets, net	<u>8,280,134</u>	<u>2,086,975</u>	<u>622,342</u>	<u>9,744,767</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	81,838	6,976	5,552	83,262
Less accumulated depreciation	<u>47,196</u>	<u>7,239</u>	<u>5,552</u>	<u>48,883</u>
Business type activities capital assets, net	<u>34,642</u>	<u>(263)</u>	<u>-</u>	<u>34,379</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Transportation

Unallocated

150,308

231,797

382,105

Business Type activities:

Food service operations

7,239

(4) General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rate %	April, 2002 Refinancing		January 1, 1998 Refinancing			
		Principal \$	Interest \$	Interest Rate %	Principal \$	Interest \$	Total \$
2006	3.80	130,000	4,940	4.70	215,000	112,883	462,823
2007		-	-	4.75	375,000	102,777	477,777
2008		-	-	4.85	390,000	84,965	474,965
2009		-	-	4.90	415,000	66,050	481,050
2010		-	-	5.00	440,000	45,715	485,715
2011		-	-	5.10	465,000	23,715	488,715
Total		<u>130,000</u>	<u>4,940</u>		<u>2,300,000</u>	<u>436,105</u>	<u>2,871,045</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	Early Retirement \$	General Obligation Bonds \$	Capital Loan Notes \$	Revenue Bonds \$	Total \$
Balance beginning of year	544,902	2,770,000	107,296	3,045,000	6,467,198
Additions	281,145	-	-	3,145,000	3,426,145
Reductions	<u>150,416</u>	<u>340,000</u>	<u>107,296</u>	<u>500,000</u>	<u>1,097,712</u>
Balance end of year	<u>675,631</u>	<u>2,430,000</u>	<u>-</u>	<u>5,690,000</u>	<u>8,795,631</u>

(6) Iowa School Cash Anticipation Program (ISCAP)

The District participated in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2005-06A	6/30/05	6/30/06	<u>\$1,114,917</u>	<u>238</u>	<u>1,100,000</u>	<u>213</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2005.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.000%	2.463%
2005-06A	3.500%	2.903%

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$321,000, \$309,193, and \$297,336 respectively, equal to the required contributions for each year.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$344,575 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Early Retirement

The District offered an early retirement program to all employees who were employed at least 20 hours per week on a regular contract during the 2004-2005 contract year, were 55 years of age as of June 30, 2004 and had been employed by the District for at least seven consecutive years. Early retirement benefits are comprised of forty percent of the 2004-2005 regular contract salary plus medical insurance premiums not to exceed the June 30, 2005 premium amount currently paid by the District on the employee's behalf. Early retirement benefits paid during the year ended June 30, 2005 totaled \$150,416. A long-term liability has been recorded in the Statement of Net Assets representing the District's commitment to fund early retirement.

(10) Loans Payable

During the year ended June 30, 1997 the District borrowed \$594,207 of capital loan notes for remodeling and equipment. The notes are to be repaid over a ten year period from proceeds of the District's voted Physical Plant and Equipment Levy. The interest rate for the entire balance is 5.55%. This loan was fully paid off in FY05.

(11) Risk Management

The District was a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004.. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted fro a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$11,536 which is recorded as a liability as of June 30, 2005.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Commitments

The District let bids totaling \$30,000 for the purchase of computers. Work on this project was undertaken and completed after June 30, 2005.

The District is in the process of adding on existing building sites. Details as of June 30, 2005 are as follows:

Amount of contracts	1,815,534
Amount of completed contract	340,246
Amounts paid	130,314
Amounts currently payable	199,435
Amounts retained	10,497
Amount yet to be completed	1,475,288

(13) Revenue Bonds Payable

Details of the District's June 30, 2005 Local Option Sales and Services Tax Revenue Bond Anticipation Project Notes are as follows:

<u>Year Ending June 30,</u>	<u>March, 2003 Issue</u>			
	<u>Interest Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2006	2.60	<u>21,190</u>	<u>815,000</u>	<u>836,190</u>

<u>Year Ending June 30,</u>	<u>March, 2004 Issue</u>			
	<u>Interest Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2006	2.95	51,035	-	51,035
2007	2.95	51,035	-	51,035
2008	2.95	<u>51,035</u>	<u>1,730,000</u>	<u>1,781,035</u>
Total		<u>153,105</u>	<u>1,730,000</u>	<u>1,883,105</u>

<u>Year Ending June 30,</u>	<u>March, 2005 Issue</u>			
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
		<u>\$</u>	<u>\$</u>	<u>\$</u>
2006		111,682	-	111,682
2007		106,930	-	106,930
2008		106,930	-	106,930
2009		106,930	585,000	691,930
2010		88,795	605,000	693,795
2011		69,133	630,000	699,133
2012		47,712	650,000	697,712
2013		<u>24,638</u>	<u>675,000</u>	<u>699,638</u>
Total		<u>662,750</u>	<u>3,145,000</u>	<u>3,807,750</u>

The debt and will be repaid with proceeds of Polk, Boone and Story County local option sales tax for school infrastructure.

(14) Due From and Due to Other Funds

The detail of Interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue:	
	Physical Plant and Equipment Levy	<u>\$34,795</u>

The Physical Plant and Equipment Levy Fund owes the General Fund for a cash deficit in a joint bank account. The balance will be repaid by October 31, 2005.

(15) Interfund Transfers

The detail of Interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$593,188
	Special Revenue:	
	Physical Plant and Equipment Levy	<u>110,309</u>
		<u>\$703,497</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(16) Financial Condition

At June 30, 2005, the District's General Fund had an unreserved fund deficit of \$115,083. The District's Physical Plant and Equipment Levy had a deficit balance of \$32,209.

Required Supplementary Information

BALLARD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive
	Actual	Actual	Actual	Original	Final	(Negative)
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	5,630,435	419,584	6,050,019	5,799,690	5,799,690	250,329
State sources	5,693,100	6,694	5,699,794	5,752,465	5,752,465	(52,671)
Federal sources	184,202	115,351	299,553	256,000	256,000	43,553
Total receipts	11,507,737	541,629	12,049,366	11,808,155	11,808,155	241,211
Disbursements:						
Instruction	6,594,086	-	6,594,086	6,155,600	6,700,000	105,914
Support services	3,054,041	-	3,054,041	3,084,500	3,084,500	30,459
Non-instructional programs	4,199	543,376	547,575	517,000	600,000	52,425
Other expenditures	3,210,819	-	3,210,819	2,855,384	3,800,000	589,181
Total disbursements	12,863,145	543,376	13,406,521	12,612,484	14,184,500	777,979
Excess (deficiency) of receipts over (under) disbursements	(1,355,408)	(1,747)	(1,357,155)	(804,329)	(2,376,345)	1,019,190
Other financing sources (uses)	3,107,453	-	3,107,453	-	-	3,107,453
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,752,045	(1,747)	1,750,298	(804,329)	(2,376,345)	4,126,643
Balance beginning of year	2,431,604	48,508	2,480,112	2,195,672	1,008,204	1,471,908
Balance end of year	4,183,649	46,761	4,230,410	1,391,343	(1,368,141)	5,598,551

See accompanying independent auditor's report.

BALLARD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	11,507,737	55,487	11,563,224
Expenditures	12,863,145	(119,011)	12,744,134
Net	(1,355,408)	174,498	(1,180,910)
Other financing sources (uses)	3,107,453	-	3,107,453
Beginning fund balances	2,431,604	(792,245)	1,639,359
Ending fund balances	4,183,649	(617,747)	3,565,902

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	541,629	10,902	552,531
Expenditures	543,376	18,967	562,343
Net	(1,747)	(8,065)	(9,812)
Beginning fund balances	48,508	46,115	94,623
Ending fund balances	46,761	38,050	84,811

See accompanying independent auditor's report.

BALLARD COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$1,572,010.

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

BALLARD COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	73,017	97,701	-	170,718
Property tax receivable:				
Current year	2,924	-	2,584	5,508
Succeeding year	204,000	-	210,630	414,630
Other receivables	154	-	-	154
Total assets	<u>280,095</u>	<u>97,701</u>	<u>213,214</u>	<u>591,010</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	-	3,365	-	3,365
Interfund payable	-	-	34,793	34,793
Deferred revenue:				
Succeeding year property tax	204,000	-	210,630	414,630
	<u>204,000</u>	<u>3,365</u>	<u>245,423</u>	<u>452,788</u>
Fund equity:				
Unreserved, undesignated fund balance	76,095	94,336	(32,209)	138,222
	<u>76,095</u>	<u>94,336</u>	<u>(32,209)</u>	<u>138,222</u>
Total liabilities and fund equity	<u>280,095</u>	<u>97,701</u>	<u>213,214</u>	<u>591,010</u>

See accompanying independent auditor's report.

BALLARD COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	181,281	-	160,193	341,474
Other	5,339	298,471	6,272	310,082
State sources	115	-	102	217
Total revenues	186,735	298,471	166,567	651,773
Expenditures:				
Instruction:				
Regular instruction	64,449	-	-	64,449
Co-curricular instruction	-	290,588	-	290,588
Support services:				
Student support services	1,183	-	-	1,183
Instructional staff support	5,800	-	60,360	66,160
Administration services	47,659	-	27,106	74,765
Plant operation and maintenance	50,023	-	14,938	64,961
Student transportation	26,477	-	39,768	66,245
Total expenditures	195,591	290,588	142,172	628,351
Excess (deficiency) of revenues over (under) expenditures	(8,856)	7,883	24,395	23,422
Other financing sources (uses):				
Operating transfers out	-	-	(110,309)	(110,309)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(8,856)	7,883	(85,914)	(86,887)
Fund balances beginning of year	84,951	86,453	53,705	225,109
Fund balances end of year	76,095	94,336	(32,209)	138,222

See accompanying independent auditor's report.

BALLARD COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Drama	2,616	3,270	3,711	2,175
Speech	1,340	896	2,236	-
Vocal Music	69	32,554	26,670	5,953
Elementary Vocal	1,815	556	896	1,475
Instrumental Music	14,196	47,684	44,158	17,722
Music Account	(969)	6,106	5,422	(285)
Elementary Band	4,755	673	2,874	2,554
Drill Team	1,388	5,383	5,813	958
Yearbook	6,179	9,115	9,759	5,535
Elementary Activities	3,002	7,090	7,467	2,625
Gym Shoe Account	85	-	-	85
Jr/Sr High Activities	2,004	6,608	7,098	1,514
Pep Club	3,424	12,970	11,413	4,981
Spanish Club	3,879	-	(1)	3,880
SADD	426	100	326	200
Junior High Student Council	1,174	1,070	603	1,641
Senior High Student Council	1,436	2,406	3,564	278
National Honor Society	3,313	8,583	10,743	1,153
Conflict Managers	457	736	445	748
East Elementary Student Council	354	3,373	3,185	542
West Elementary Student Council	2,083	6,086	5,471	2,698
Class of 2004	253	-	253	-
Class of 2005	1,919	2,010	3,929	-
Class of 2006	156	12,979	12,212	923
Class of 2007	268	620	14	874
Class of 2008	120	606	26	700
Class of 2009	90	1,433	1,324	199
Class of 2010	-	1,869	1,785	84
	<u>55,832</u>	<u>174,776</u>	<u>171,396</u>	<u>59,212</u>

BALLARD COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletic Director	35,593	24,787	24,940	35,440
Boys Basketball	-	6,737	6,907	(170)
Football	-	13,048	11,956	1,092
Soccer	-	1,462	1,635	(173)
Baseball	(52)	3,900	10,466	(6,618)
Boys Track	-	7,448	4,392	3,056
Boys Tennis	-	2,526	2,666	(140)
Boys Golf	-	795	2,188	(1,393)
Wrestling	-	3,749	4,644	(895)
Girls Basketball	-	11,797	9,049	2,748
Volleyball	-	4,063	5,247	(1,184)
Girls Soccer	-	2,815	2,590	225
Girls Softball	(521)	14,275	12,654	1,100
Girls Track	-	8,151	2,988	5,163
Girls Tennis	-	286	887	(601)
Girls Golf	-	655	1,829	(1,174)
Concessions	(4,399)	17,201	14,154	(1,352)
Athletic Participation	-	-	-	-
	<u>30,621</u>	<u>123,695</u>	<u>119,192</u>	<u>35,124</u>
Totals	<u>86,453</u>	<u>298,471</u>	<u>290,588</u>	<u>94,336</u>

See accompanying independent auditor's report.

BALLARD COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities

Agency Fund

Year ended June 30, 2005

Account	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Character Education Council	1,368	210	113	1,465
Clothes Pantry	769	750	531	988
East Elementary	322	313	-	635
Junior-Senior High	400	960	981	379
West Elementary	195	160	111	244
	<u>3,054</u>	<u>2,393</u>	<u>1,736</u>	<u>3,711</u>

See accompanying independent auditor's report.

BALLARD COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
General	2,546,300	2,584,231	2,481,069	2,357,171
Special revenue/debt service	814,536	884,870	870,485	862,304
Capital projects	1,237,213	781,950	6,619	7,583
	<u>4,598,049</u>	<u>4,251,051</u>	<u>3,358,173</u>	<u>3,227,058</u>
State sources:				
General	5,692,604	5,291,784	5,051,202	4,992,318
Special revenue/debt service	496	1,982	3,750	2,601
School nutrition	6,694	6,225	6,212	6,042
	<u>5,699,794</u>	<u>5,299,991</u>	<u>5,061,164</u>	<u>5,000,961</u>
Federal sources:				
General	184,202	171,237	118,689	126,730
School nutrition	126,370	127,139	125,052	120,478
	<u>310,572</u>	<u>298,376</u>	<u>243,741</u>	<u>247,208</u>
Total	<u>10,608,415</u>	<u>9,849,418</u>	<u>8,663,078</u>	<u>8,475,227</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Ballard Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Ballard Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 11, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ballard Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ballard Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Ballard Community School District and other parties to whom Ballard Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Ballard Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

October 11, 2005

BALLARD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the certified budget amounts.

05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Edward Den Beste Teacher	Technology services and supplies	\$31,950

The transaction with Mr. Den Beste appears to represent a conflict of interest since the transactions exceed the \$2,500 of purchases allowed by the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

BALLARD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

- 05-II-E Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- 05-II-K Financial Condition - We noted that at June 30, 2005, the District's General Fund had an unreserved fund deficit of \$115,803. The District's Physical Plant and Equipment Levy had a deficit balance of \$32,209.
- Recommendation - We recommend that the District investigate alternatives to bring these funds into positive financial positions.
- Response - We are working on alternatives to ensure that all funds are in a positive financial position a the end of the year.
- Conclusion - Response accepted.